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**Assessment of the 2011 national reform programme and convergence programme for
LATVIA**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on the National Reform Programme 2011 of Latvia and delivering a Council Opinion on
the updated convergence programme of Latvia, 2011-2014**

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1. INTRODUCTION

The Latvian economy was the fastest growing in the EU from 2000 to 2007 reflecting convergence prospects and foreign financial inflows contributing to strong domestic demand. However, many imbalances were accumulated in the boom period. Consequently, the economy experienced the EU's steepest contraction in 2008-09, with a cumulated real GDP drop of 25%, a combination of productivity drops and adverse external shocks. The recession led to a rapid increase in unemployment and a fall in wages. Unemployment surged to one of the highest rates in the EU, reaching an all-time high of about 20% in the beginning of 2010 as compared with only 6-7% in the pre-crisis period. The economic crisis also took a heavy toll on public finances, as the general government deficit widened from 0.3% of GDP in 2007 to 4.2% in 2008 and 9.7% in 2009.

To address the crisis, in December 2008 the country reached an agreement with the EU and the IMF on a medium-term financial assistance programme¹.

2. MAIN FEATURES OF THE PROGRAMME

On 20 January 2009, the Council approved the EU medium-term financial assistance for Latvia of an amount of up to EUR 3.1 billion under the Balance of Payments (BoP) facility for non-euro area Member States. The EU assistance is part of a coordinated package of international financial assistance with total commitments of up to EUR 7.5 billion over the period to end-2011.

The first instalment of the EU financial assistance, totalling EUR 1 billion, was released on 25 February 2009 after the signature of the Memorandum of Understanding. A second instalment of EUR 1.2 billion was released on 27 July 2009, a third instalment of EUR 0.5 billion on 11 March 2010 and a fourth instalment of EUR 0.2 billion on 21 October 2010, after completion of the respective performance reviews.

Under the programme, Latvia is committed to a wide range of fiscal, financial and structural reforms. In particular, the programme is focussing on restoring a sustainable fiscal position and on creating preconditions for sustainable growth, while pursuing social fairness. To achieve the first goal, the authorities have committed to gradually reduce the nominal deficit to below 3% of GDP in 2012. In order to avoid recurrence of pro-cyclical fiscal loosening in the future, the authorities have committed under the programme to considerably strengthen the fiscal governance framework and to reform the public wage system. In order to support the restructuring of the economy and creating an environment for sustainable growth, the authorities are implementing a wide range of measures aiming at improving the business environment, stepping up the absorption of EU structural funds, implementing effective active labour market policies and reforms in education. Moreover, the authorities are strengthening the financial sector regulation and supervision. Social fairness is being pursued through more effective targeting of social benefits, appropriate financing for social needs, and by stepping up the fight against the informal economy.

3. IMPLEMENTATION

The implemented reforms as well as improving macroeconomic conditions helped the country meet the programme fiscal targets and re-balance its economy towards a more sustainable growth path.

¹ Reference: http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/latvia/latvia_en.htm

The Commission services carried out the fourth review mission, in cooperation with the IMF staff, during 5-15 April 2011 to assess progress made with respect to the specific conditions attached to the fifth instalment (EUR 0.1 billion) of the EU financial assistance, as laid down in the third Supplemental Memorandum of Understanding (SMoU). Based on the findings of the mission and a Compliance Note sent by the authorities on 1 April 2011, the implementation of the programme is assessed positively, although risks are still present. The specific policy criteria are considered to be broadly fulfilled. Since the previous review, further budgetary and structural measures, supported by an improved economic outlook, ensured compliance with the policy programme, and have put Latvia in a much stronger financial position. Given such favourable developments, the remaining two disbursements originally foreseen under the EU balance of payments support (both of EUR 100 million), as well as the envisaged disbursements by other lenders, are expected not to be drawn, and the respective amounts will be treated as precautionary. Fulfilment of the specific conditions laid down in the fourth SMoU will be assessed by the next review expected in November 2011.

The rapid adoption of the 2011 budget, following the October 2010 general elections, showed the resolution of the country to stick to programme commitments. Nevertheless, the fourth SMoU points out that, with a view to completing the programme by 2012, further consolidations efforts as well as measures for improving fiscal governance are needed. Measures to stabilise the financial system have been taken, especially as regards the work-out and sales strategies for Parex Bank and Citadele banks, and the restructuring of Mortgage and Land Bank. Programme conditions are designed to ensure that the strategies are implemented. There has been good progress in amending public procurement procedures and making operational the special programme for the support of small and micro companies. In addition, the absorption of EU funds has improved in some areas, although less progress has been made in some other important fields, e.g. science and research, holding fund activities, as well as broadband. Commitments under the fourth SMoU envisage more decisive steps as regards the management of state owned assets and real estate policies, to generate significant revenues while increasing the efficiency of the economy.

Latvia submitted its National Reform Programme (NRP) and the updated convergence programme (CP) on 29 April 2011. Both programmes reflect the objectives and actions required under the economic reform programme committed to by the Latvian government for the purposes of the EU financial assistance. The macroeconomic scenario underpinning the budgetary projections in the convergence programme appears plausible. In terms of the budgetary strategy, the programme envisages a deficit of 2.5% of GDP in 2012, which corresponds to commitments by the authorities under the BoP programme and addresses the Council recommendation for correction of the excessive deficit situation by 2012. Reaching this target would require additional measures of up to 1.3% of GDP, according to current Commission estimates. Taking into account the measures implemented since the issuance of the recommendation to correct the excessive deficit situation and additional consolidation implied in the updated convergence programme, the planned fiscal effort for 2011-2012 is in line with the required adjustment. In the outer years the programme targets a headline deficit of 1.9% of GDP in 2013 and 1.1% in 2014.

The fiscal consolidation path envisaged in the programme relies on reduction of primary expenditure, mostly through general government consumption and social benefits. The programme does not provide full information regarding measures underpinning the achievement of the set targets and these measures are expected to be spelled out in detail in the forthcoming budgets. Latvia is at medium risk with regard to the long-term sustainability of public finances. Reducing the primary deficit over the medium term, as foreseen in the programme, would contribute to lowering the risks to the sustainability of public finances.

4. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

The NRP and CP have been prepared by a broad inter-ministerial working group, where social partners were closely involved. The Cabinet of Ministers and the Parliament of Latvia have been consulted on several occasions as regards the Europe 2020 quantitative targets, the drafting process of the NRP and CP, the negotiation mandate with the Commission and the final texts to be submitted to the Commission. Latvia confirmed its commitment to the national targets outlined in table 1 within the National Reform Programme.

Table 1: Latvian Europe 2020 targets

Europe 2020 targets	Current situation in Latvia ²	Latvian Europe 2020 target in the NRP
R&D investment (% of GDP)	0.6%	1.5%
Employment rate (%)	64.7%	73%
Early school leaving (%)	15.2%	13.4%
Tertiary education attainment (%)	35%	34-36%
Reduction of number of people in or at risk of poverty or exclusion	834 000 people at risk of poverty or exclusion	-121,000
Energy efficiency – reduction of energy consumption in Mtoe ³		Reduction in energy consumption: 0.67 Mtoe
Reduction in greenhouse gas emissions (from sources not covered by the Emission Trading System)	+8% ⁴	+17% ⁵
Renewable energy (% of total energy use)	30% (2008)	40%

² Eurostat figures.

³ As estimated by the Commission. Mtoe = Million tonnes of oil equivalent.

⁴ This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).

⁵ The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

ANNEX

Table I. Macro economic indicators

	1995- 1999	2000- 2004	2005- 2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	3.8	7.5	7.1	-18.0	-0.3	3.3	4.0
Output gap ¹	-2.6	-0.9	8.8	-10.9	-9.5	-5.2	-0.8
HICP (annual % change)	4.8	3.2	9.7	3.3	-1.2	3.4	2.0
Domestic demand (annual % change) ²	6.8	8.7	7.5	-27.6	-0.9	3.5	4.7
Unemployment rate (% of labour force) ³	16.6	11.9	7.3	17.1	18.7	17.2	15.8
Gross fixed capital formation (% of GDP)	18.9	25.0	31.6	21.5	18.0	19.1	20.6
Gross national saving (% of GDP)	14.5	19.8	18.8	28.9	24.3	21.3	21.4
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	-0.9	-1.9	-1.4	-9.7	-7.7	-4.5	-3.8
Gross debt	12.5	13.9	12.9	36.7	44.7	48.2	49.4
Net financial assets	9.9	8.9	4.0	-5.6	n.a	n.a	n.a
Total revenue	37.9	33.7	35.7	34.6	35.2	36.9	36.5
Total expenditure	38.8	35.6	37.1	44.2	42.9	41.4	40.4
of which: Interest	0.9	0.8	0.5	1.5	1.5	1.9	2.1
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	-3.3	-4.8	-9.6	19.1	n.a	n.a	n.a
Net financial assets; non-financial corporations	-56.3	-80.3	-89.9	-94.8	n.a	n.a	n.a
Net financial assets; financial corporations	-5.1	-1.2	-1.7	8.3	n.a	n.a	n.a
Gross capital formation	17.4	23.7	26.6	12.0	n.a	n.a	n.a
Gross operating surplus	23.1	33.4	30.5	30.8	n.a	n.a	n.a
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	-1.1	-0.7	-5.2	2.4	n.a	n.a	n.a
Net financial assets	30.2	33.4	17.3	10.1	n.a	n.a	n.a
Gross wages and salaries	34.2	33.7	41.0	42.0	n.a	n.a	n.a
Net property income	7.1	11.7	6.6	5.1	n.a	n.a	n.a
Current transfers received	16.7	18.3	17.0	20.2	n.a	n.a	n.a
Gross saving	0.3	1.3	-0.3	6.4	n.a	n.a	n.a
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	-5.7	-7.4	-16.1	11.1	5.6	3.1	1.5
Net financial assets	22.4	40.0	71.0	83.8	n.a	n.a	n.a
Net exports of goods and services	-7.7	-10.9	-17.4	-1.5	-0.8	-1.0	-1.6
Net primary income from the rest of the world	0.3	-0.4	-2.1	7.6	2.1	-1.7	-2.5
Net capital transactions	0.1	0.6	1.5	2.4	1.9	3.5	3.1
Tradable sector	52.3	49.8	45.1	40.8	45.8	n.a	n.a
Non tradable sector	36.1	39.9	43.6	49.3	43.8	n.a	n.a
of which: Building and construction sector	4.5	5.2	7.0	6.0	4.5	n.a	n.a
Real effective exchange rate (index, 2000=100)	88.6	93.1	125.6	146.0	128.4	126.5	123.4
Terms of trade goods and services (index, 2000=100)	99.9	101.5	104.3	102.9	103.0	102.9	103.1
Market performance of exports (index, 2000=100)	109.6	105.1	117.0	125.6	122.6	122.3	122.8
Notes:							
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.							
² The indicator on domestic demand includes stocks.							
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.							
<i>Source :</i>							
<i>Commission services' spring 2011 forecast</i>							

Table II. Macro economic scenario for the budgetary projections

	2010		2011		2012		2013	2014
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	-0.3	-0.3	3.3	3.3	4.0	4.0	4.0	4.0
Private consumption (% change)	-0.1	-0.1	3.0	3.0	3.5	4.0	4.0	4.0
Gross fixed capital formation (% change)	-19.5	-19.5	9.2	11.0	12.0	10.3	8.9	8.1
Exports of goods and services (% change)	10.3	10.3	8.6	5.1	6.6	5.0	5.0	5.0
Imports of goods and services (% change)	8.6	8.6	8.6	6.1	7.7	6.0	6.1	6.1
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-6.7	-6.7	3.5	4.0	4.9	4.7	4.8	4.9
- Change in inventories	5.8	5.8	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.6	0.6	-0.2	-0.6	-0.8	-0.7	-0.8	-0.9
Output gap ¹	-9.5	-9.1	-5.2	-5.8	-0.8	-3.0	-0.9	0.6
Employment (% change)	-4.8	-4.6	1.5	1.5	1.7	1.3	1.4	1.4
Unemployment rate (%)	18.7	18.7	17.2	16.4	15.8	14.5	12.4	10.3
Labour productivity (% change)	4.6	4.6	1.8	1.7	2.3	2.7	2.5	2.6
HICP inflation (%)	-1.2	-1.1	3.4	3.5	2.0	2.0	2.0	2.0
GDP deflator (% change)	-2.3	-2.3	2.2	2.0	1.6	1.3	2.0	2.0
Comp. of employees (per head, % change)	-6.5	-3.5	1.5	1.7	1.5	2.0	2.3	2.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.6	5.5	3.1	2.3	1.5	1.5	0.8	-0.4
Note:								
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.								
Source :								
Commission services' spring 2011 forecasts (COM); Convergence programme (CP).								

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	Change: 2010-2014
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	35.2	36.9	38.2	36.5	36.9	34.5	32.2	-3.0
<i>of which:</i>								
- Taxes on production and imports	11.3	12.0	12.1	12.3	12.6	12.3	11.8	0.5
- Current taxes on income, wealth, etc.	7.5	6.8	6.8	6.7	6.7	6.5	6.4	-1.1
- Social contributions	8.6	8.9	8.9	8.7	8.7	8.0	7.5	-1.1
- Other (residual)	7.8	9.2	10.4	8.9	8.9	7.7	6.5	-1.3
Expenditure	42.9	41.4	42.8	40.4	39.4	36.3	33.3	-9.6
<i>of which:</i>								
- Primary expenditure	41.4	39.6	41.0	38.3	37.4	34.2	30.9	-10.5
<i>of which:</i>								
Compensation of employees	10.2	9.6	8.5	9.1	8.0	7.3	6.9	-3.3
Intermediate consumption	7.0	6.7	5.7	6.7	5.0	4.7	4.1	-2.9
Social payments	13.2	12.4	12.4	11.5	11.2	10.5	9.8	-3.4
Subsidies	0.6	0.4	0.3	0.4	0.3	0.3	0.2	-0.4
Gross fixed capital formation	3.6	4.3	4.7	4.2	3.1	2.0	1.5	-2.1
Other (residual)	6.9	6.2	9.3	6.3	10.0	9.5	8.4	1.5
- Interest expenditure	1.5	1.9	1.8	2.1	2.0	2.1	2.4	0.9
General government balance (GGB)	-7.7	-4.5	-4.5	-3.8	-2.5	-1.9	-1.1	6.6
Primary balance	-6.2	-2.7	-2.7	-1.8	-0.5	0.2	1.3	7.5
One-off and other temporary measures	-1.4	0.9	0.0	0.9	0.0	0.0	0.0	1.4
GGB excl. one-offs	-6.3	-5.5	-4.5	-4.7	-2.5	-1.9	-1.1	5.2
Output gap ²	-9.5	-5.2	-5.8	-0.8	-3.0	-0.9	0.6	10.1
Cyclically-adjusted balance ²	-5.1	-3.1	-2.9	-3.6	-1.7	-1.6	-1.3	3.8
Structural balance³	-3.7	-4.0	-2.9	-4.5	-1.7	-1.6	-1.3	2.4
<i>Change in structural balance</i>		<i>-0.3</i>	<i>0.8</i>	<i>-0.5</i>	<i>1.2</i>	<i>0.0</i>	<i>0.4</i>	
Structural primary balance ³	-2.1	-2.1	-1.1	-2.5	0.3	0.5	1.1	3.3
<i>Change in structural primary balance</i>		<i>0.0</i>	<i>1.0</i>	<i>-0.3</i>	<i>1.4</i>	<i>0.1</i>	<i>0.7</i>	
Notes:								
¹ On a no-policy-change basis.								
² Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.								
³ Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
Source:								
Convergence programme (CP); Commission services' spring 2011 forecasts (COM); Commission services' calculations								

Table IV. Debt dynamics

	2010		2011		2012		2013	2014
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	-0.3	-0.3	3.3	3.3	4.0	4.0	4.0	4.0
Private consumption (% change)	-0.1	-0.1	3.0	3.0	3.5	4.0	4.0	4.0
Gross fixed capital formation (% change)	-19.5	-19.5	9.2	11.0	12.0	10.3	8.9	8.1
Exports of goods and services (% change)	10.3	10.3	8.6	5.1	6.6	5.0	5.0	5.0
Imports of goods and services (% change)	8.6	8.6	8.6	6.1	7.7	6.0	6.1	6.1
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-6.7	-6.7	3.5	4.0	4.9	4.7	4.8	4.9
- Change in inventories	5.8	5.8	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.6	0.6	-0.2	-0.6	-0.8	-0.7	-0.8	-0.9
Output gap ¹	-9.5	-9.1	-5.2	-5.8	-0.8	-3.0	-0.9	0.6
Employment (% change)	-4.8	-4.6	1.5	1.5	1.7	1.3	1.4	1.4
Unemployment rate (%)	18.7	18.7	17.2	16.4	15.8	14.5	12.4	10.3
Labour productivity (% change)	4.6	4.6	1.8	1.7	2.3	2.7	2.5	2.6
HICP inflation (%)	-1.2	-1.1	3.4	3.5	2.0	2.0	2.0	2.0
GDP deflator (% change)	-2.3	-2.3	2.2	2.0	1.6	1.3	2.0	2.0
Comp. of employees (per head, % change)	-6.5	-3.5	1.5	1.7	1.5	2.0	2.3	2.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.6	5.5	3.1	2.3	1.5	1.5	0.8	-0.4
<i>Note:</i>								
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.								
<i>Source:</i>								
Commission services' spring 2011 forecasts (COM); Convergence programme (CP).								

Table V. Long-term sustainability indicators

Latvia	Baseline scenario (2010)			Programme scenario		
	S1	S2		S1	S2	
Value	4.0	4.3		1.3	1.6	
of which:						
Initial budgetary position (IBP)	2.5	2.7		-0.2	0.0	
Debt requirement in 2060 (DR)	-0.1	-		-0.1	-	
Long-term change in the primary balance (LTC)	1.5	1.6		1.5	1.6	
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	44.7	58.9	68.6	44.7	50.8	38.9

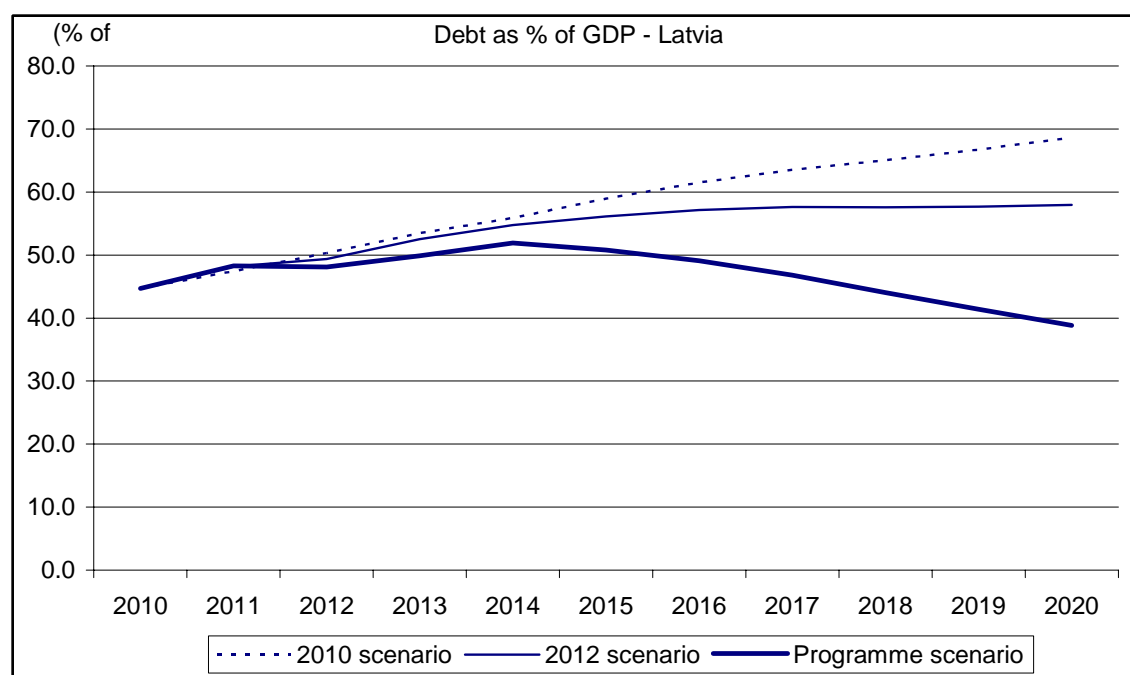


Table VI. Financial sector indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	119.3	126.8	136.4	164.7	164.9
Share of assets of the five largest banks (% of total assets)	69.2	67.2	70.2	69.3	...
Foreign ownership of banking system (% of total assets)	64.8	58.0	67.8	68.8	...
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	0.5	0.8	3.6	16.4	19.0
- capital adequacy ratio (%) ²⁾	10.2	11.1	11.8	14.6	14.6
- profitability - return on equity (%) ³⁾	25.6	24.3	4.6	-41.6	-20.4
Private credit growth (annual % change)	60.5	49.0	19.6	-0.6	-8.0
Residential property prices (y-o-y % change)	...	...	...	...	...
Exposure to countries receiving/repaying official financial assistance (% of GDP) ⁴⁾
Private debt (% of GDP)	86.8	88.8	89.6	103.1	97.6
Gross external debt (% of GDP)					
- Public	5.8	5.0	9.2	24.7	32.2
- Private	30.0	36.1	40.7	46.3	45.1
Long term interest rates spread versus Bund (basis points)*	37.1	106.6	244.8	913.5	759.4
Credit default swap spreads for sovereign securities (5-year)*	...	...	790.1	703.6	358.8
Notes:					
¹⁾ Until 2006, nonperforming loans defined as loans in the substandard, doubtful, and loss categories.					
²⁾ The capital adequacy ratio is defined as total capital divided by risk weighted assets.					
³⁾ Net income to equity ratio. After extraordinary items and taxes.					
⁴⁾ Covered countries are IE, EL, PT, RO, LV and HU.					
* Measured in basis points.					
Source:					
Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).					

Table VII. Labour market and social indicators

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	70.4	73.5	75.2	75.8	67.1	65.0
Employment growth (% change from previous year)	1.6	4.9	3.6	0.9	-13.2	-4.8
Employment rate of women (% of female population aged 20 - 64)	65.7	69.1	70.7	72.1	66.8	64.9
Employment rate of men (% of male population aged 20 - 64)	75.4	78.2	80.1	79.7	67.4	65.1
Employment rate of older workers (% of population aged 55 - 64)	49.5	53.3	57.7	59.4	53.2	48.2
Part-time employment (% of total employment)	8.3	6.5	6.4	6.3	8.9	9.7
Fixed term employment (% of employees with a fixed term contract)	8.4	7.1	4.2	3.3	4.3	6.8
Unemployment rate ¹ (% of labour force)	8.9	6.8	6.0	7.5	17.1	18.7
Long-term unemployment ² (% of labour force)	4.1	2.5	1.6	1.9	4.6	8.4
Youth unemployment rate (% of youth labour force aged 15-24)	13.6	12.2	10.7	13.1	33.6	34.5
Youth NEET ³ rate (% of population aged 15-24)	10.0	11.1	11.8	11.4	17.4	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	14.4	14.8	15.1	15.5	13.9	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	18.5	19.2	25.6	27.0	30.1	:
Labour productivity per person employed (annual % change)	8.9	7.0	6.2	-5.1	-5.5	4.6
Hours worked per person employed (annual % change)	1.7	-0.9	-1.3	-4.3	-2.9	-0.8
Labour productivity per hour worked (annual % change; constant prices)	7.1	8.0	7.5	-0.9	-2.7	5.5
Compensation per employee (annual % change; constant prices)	13.5	12.2	12.3	1.2	-10.8	-4.3
Nominal unit labour cost growth (annual % change)	14.8	15.2	27.2	22.0	-7.0	-10.6
Real unit labour cost growth (annual % change)	4.2	4.9	5.8	6.6	-5.6	-8.5

Notes:¹ According to ILO definition, age group 15-74)² Share of persons in the labour force who have been unemployed for at least 12 months.³ NEET are persons that are neither in employment nor in any education or training.**Sources:**

Comission services (EU Labour Force Survey and European National Accounts)

Table VII. Labour market market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	3.12	3.30	3.71	3.38	3.65
Invalidity	0.97	0.89	0.87	0.74	0.91
Old age and survivors	6.37	5.92	5.75	5.01	5.65
Family/Children	1.29	1.31	1.21	1.17	1.38
Unemployment	0.49	0.52	0.51	0.41	0.51
Housing and Social exclusion n.e.c.	0.25	0.22	0.22	0.24	0.28
Total	12.5	12.1	12.3	10.9	12.4
of which: Means tested benefits	0.19	0.18	0.19	0.20	0.24
Social inclusion indicators	2005	2006	2007	2008	2009
Risk-of-poverty or exclusion ¹ (% of total population)	45.8	41.4	36.0	33.8	37.4
Risk-of-poverty or exclusion of children (% of people aged 0-17)	44.3	42.7	33.9	33.2	38.0
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	55.6	51.3	50.3	58.1	55.5
At-Risk-of-Poverty rate ² (% of total population)	19.2	23.1	21.2	25.6	25.7
Value of relative poverty threshold (single HH per year) - in PPS	2352	2664	3312	4356	4392
Severe Material Deprivation ³ (% of total population)	38.9	30.6	24.9	19.0	21.9
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	8.1	7.0	6.1	5.1	6.7
In-work at-risk-of poverty rate (% of persons employed)	9.1	11.2	9.9	11.2	11.5
Notes:					
¹ People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).					
² At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.					
³ Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone					
⁴ People living in households with very low work intensity: Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.					
Sources:					
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table VIII. Product market performance and policy indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity ¹ total economy (annual growth in %)	6.4	6.5	5.4	-3.7	-3.1	4.5
Labour productivity ¹ in manufacturing (annual growth in %)	6.6	4.2	2.3	-4.4	-0.7	13.1
Labour productivity ¹ in electricity, gas, water (annual growth in %)	7.7	5.2	15.3	-7.2	0.6	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	2.1	7.7	-6.0	-2.8	8.2	-6.6
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	0.7	0.7	0.5	n.a.	n.a.	n.a.
Policy indicators	2001-2005	2006	2007	2008	2009	2010
Enforcing contracts ³ (days)	n.a.	279	279	279	309	309
Time to start a business ³ (days)	n.a.	16	16	16	16	16
R&D expenditure (% of GDP)	0.4	0.7	0.6	0.6	0.5	n.a.
Tertiary educational attainment (% of 30-34 years old population)	17.9	19.2	25.6	27.0	30.1	n.a.
Total public expenditure on education (% of GDP)	5.4	5.1	5.0	5.7	n.a.	n.a.
	2003	2005	2006	2008	2009	2010
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁶ (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

¹Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

²Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

³The methodologies, including the assumptions, of this indicator is presented in detail at the website <http://www.doingbusiness.org/methodology>.

⁴The methodologies of the Product market regulation indicators are presented in detail at the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

⁶ Aggregate ETCR.

*figure for 2007.

Source :

Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).